



## **Q4 FY22 Earnings Conference Call**

**April 21, 2022 | 15:00 hrs IST**

**Moderator:**

Ladies and gentlemen, good day, and welcome to the Tata Elxsi Limited Q4 FY2022 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchstone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shashank Ganesh from EY. Thank you, and over to you, Sir!

**Shashank Ganesh:**

Thank you very much, Faizan. Good afternoon to all the participants on the call. Good morning, if you are logging in from the western side. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties, and other factors, therefore it must be viewed in conjunction with the business risk that could cause further result performance or achievements that differ significantly from what is expressed or implied by such forward-looking statements.

To take us through the results and answer your questions today, we have the Senior Management of Tata Elxsi represented by Mr. Manoj Raghavan - Managing Director & CEO; Mr. Nitin Pai – Chief Marketing & Chief Strategy Officer; Mr. Gaurav Bajaj - Chief Financial Officer; and Ms. Cauveri Sriram - Company Secretary. We will start the call with a

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brief overview of the past quarter by Mr. Raghavan, followed by a Q&A session. We would appreciate your cooperation and restricting yourself to two questions to allow participants an opportunity to interact. If you have any further questions, you may join the queue, and we will be happy to respond to them if time permits. Having said that, I would like to hand over the call to Mr. Manoj Raghavan. Over to you, Manoj!

**Manoj Raghavan:**

Thanks, Shashank. Good afternoon everybody, and thank you for joining us today for the Q4 Earnings Call. I hope all of you are safe and healthy. On the financial performance part, I am very happy to report that we once again delivered segment-leading results in the last Financial Year 2022. Our revenue from operations during the year grew by 35.3% Year-on-Year to 2,470 Crores. For the year, we reported Profit before tax of 745 Crores and Profit after tax of close to 550 Crores, which is a 49.3% growth over the previous year. Our Q4 revenue from operations stood at 681.7 Crores growing sequentially by 7.3% Year-on-Year.

The Year-on-Year revenue growth during the quarter was 31.5%. Our Profit after tax during the quarter was 160 Crores, growing 38.9% Year-on-Year. EPD, our largest division, continues to show strong growth. EPD grew 7.6% sequentially in constant currency terms. Our Industrial Design division, too, witnessed a strong sequential growth of 8.7% in constant currency terms. Increasingly, we are seeing good traction for our design digital offerings. That is a key reason for our industrial design division growing well along with EPD in this quarter.

Our transportation business unit grew 8.3% sequentially in constant currency terms during the quarter, which was aided by large deal wins across autonomous, electric vehicles, and digital. We won new customers as well as multi-year deals across geographies led by Europe. We were selected by a leading German Tier-1 supplier for establishing an Offshore Development Center for Autonomous Driving and ADAS technologies. We also won a multi-year multi-million-dollar deal for EV system development from a global automotive leader.

Our media and communication business unit continues to demonstrate consistent growth, growing 7.2% sequentially in constant currency terms in the last quarter. This growth again is powered by large deals and market share regaining from competition and transformation as well as platform-led deals. As an example, we won a five-year deal with a Middle East broadcasting leader for an end-to-end streaming video implementation and multi-year operational support. This is a truly design-digital deal that includes end-to-end

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streaming video solutions, the IP that we have, TEPlay, Tata Elxsi's white-label streaming video, and OTT solution, research, experience, and design UX and UI from our design team.

The healthcare business, too, witnessed strong growth. We grew upwards of 70% Year-on-Year and 6.8% sequentially in constant currency. This was supported by demand for our regulatory service offerings and digital and connected health-related engagements. This is an example of the kind of deals we are winning here. North American healthcare providers selected Tata Elxsi for providing cloud engineering services.

Overall, for the Company, we continue to win large deals across our key business units and keep the deal pipeline healthy. We have also been able to maintain a favorable onshore-offsite revenue mix, which helps us maintain our margins at a healthy rate.

As a part of our innovation effort in the last quarter, we unveiled TEngage, which is a digital health platform for omnichannel care and patient engagement. This was launched at the HIMSS Global Health Conference & Exhibition in March 2022.

We are also taking a strong position on the ESG front. Tata Elxsi has committed itself to ambitious goals of achieving 100% carbon neutrality by 2030, and by 2025 we aim to half our carbon footprint. We have outlined multiple streams of action along with key areas of materiality for the Company.

On the talent front, we are all aware of the current supply-side challenges that the industry is facing. We continue to invest in accelerated hiring of freshers and lateral talent and training and leadership development for our future. During the Financial Year 2022 and the last quarter, we continued adding to our resource base in line with the growth of our business. We added more than 2000 employees on a net basis in Q4. We have also been proactively engaging with our employees and have deployed a number of measures to engage better, engage more. As a result, this quarter's attrition numbers were better than the overall industry. That said, it is still at an elevated number, and we need to watch our attrition numbers constantly.

At an overall level, the quarter was a very rewarding one for us with a good topline and bottom-line growth. Our strategy of growth is playing out well, and we are able to maintain our margins as well. We are also witnessing good success in winning deals in adjacencies, and that has also helped us maintain our growth momentum, and as we enter the new financial year, our order books look strong. We continue to see traction in the

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large deal discussions, and our deal pipeline is also very healthy. With that, I would like to hand it over for a Q&A session. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mayank Babla from Dalal & Broacha. Please go ahead.

**Mayank Babla:** Good evening, everyone, and thank you for the opportunity. Congratulations on a great set of numbers. My first question is regarding talent. As you said, you are accelerating the hiring of freshers and also laterals; as far as freshers are concerned, how much time does it take to train the freshers and make them billable? Because ER&D services is a relatively specialized field compared to IT services, I was just wondering how much time it takes to make them billable. Second, when do you see the beneficial impact on margins?

**Manoj Raghavan:** From a fresher's perspective, I think anywhere between six to nine months is typically what we take to really make them billable. As you rightly said, ER&D takes time; we need to train the engineers in both classroom training as well as on-the-job training. Even after six months, they usually get in as a bench resource or buffers within existing projects and so on. Usually, after about nine months or so, we actually convert them into billing. Sorry, I did not get the second question?

**Mayank Babla:** I was asking that six to nine months is a gestation period, so probably by FY2024, we can expect some positive impact on margins because of the substitution pyramid?

**Manoj Raghavan:** I think we do not hire freshers for anything to do with margins; we are not an IT company that really flattens the pyramid by hiring freshers. That does not work in our business. We consider freshers as people who will contribute moving forward, and typically when you look at hiring, last year, we added about 1000 - 1100 freshers. This year we are looking at an increased number of 2500 or 3000. So that is the plan, but the plan is not to hire them so that I can improve my margins.

**Mayank Babla:** Just one data question, what would be the onsite-offshore effort mix for the quarter?

**Gaurav Bajaj:** It is about 90:10.

**Mayank Babla:** A last question, if I can squeeze it in, please. This April, can we expect a wage hike cycle? I am sorry if I missed that in your commentary.

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- Manoj Raghavan:** We have given a wage hike in January itself for all the junior people; I would say almost 65% to 70% of the workforce has already been given a wage hike. The senior people will have their wage hike from April onwards.
- Mayank Babla:** Sure, thank you so much, and best of luck for the future.
- Moderator:** Thank you. The next question is from the line of Bhavik Mehta from JP Morgan. Please go ahead.
- Bhavik Mehta:** Thanks for the opportunity, and congratulations on a good set of results. On the wage hike, can you please quantify the impact of the wage hike this quarter? Because if I look at your employee cost it has gone up by just 4.5% sequentially and revenue you are up 7% and even as a percent of sales, the employee costs are like the lowest in the past eight quarters so can you please help me understand this?
- Gaurav Bajaj:** Sure, this is Gaurav. Let me take that question. As Manoj said in the earlier question, we had done the wage hike for almost 65% to 70% of our workforce. So on a quarterly basis, the impact of the wage hike is about 150 basis points. However, that has been partially offset by the other operating levers present in the organization in terms of the utilizations or the pyramid rationalizations. Also, it has been helped by the better realization from our fixed price projects and some of the rate hikes, so net-net, the impact what you see is already partially offset during the quarter, and we believe that with our volumes and further leverage on the operating efficiencies, we would be able to kind of neutralize that over the next one or two quarters.
- Bhavik Mehta:** That is helpful, and just looking at FY2023, what are the headwinds and tailwinds you are looking at on the margin side? Because the supply issues remain elevated, there could be some potential return of travel and facility costs coming back next year. So how should we look at margins for FY2023?
- Gaurav Bajaj:** Let me take that again. Of course, there are certain inflations and cost inflations in the industry, and there are supply chain constraints that are not hidden from anyone. I think we have been taking the right steps, whether in terms of the wage hike, retention, or employee engagement. Of course, with all the supply chain constraints, the wage hike that we have done, we think that is important from the employee perspective because that will help us in terms of retaining the key talent to deliver on our critical projects and all the deals and the new programs that we are winning.

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I think there are enough levers available to utilize -as I said on the earlier question as well- whether that is our offshore-centric model on the delivery or the superior management execution on the projects. We said that our fixed price project is already 54% of the total delivery, but what we see is that it is helping us in terms of the bottom line because we are able to execute and perfectly deliver those projects on time. It is helping us in terms of realizing better rates. We are able to source better rate hikes on the T&M engagements also from the customers.

Thirdly, I think the forex currency has also supported in terms of setting off some of these cost inflation impacts, whether in terms of the wage hikes or the attrition. Lastly, I would say that I think we are expanding, and with our volumes and the scale, I think that some of the other cost-line items would be non-linear, which will help us in terms of sub setting the inflation on the margins. We are expanding into the SEZ, which will also help in bringing down our effective tax rate, so net-net, I think we see there are enough levers available for us to manage our margin well and in the range that we are operating today.

**Bhavik Mehta:** Okay, thank you. That is it from my side.

**Moderator:** Thank you. The next question is from the line of Vimal Gohil from Union Mutual Fund. Please go ahead.

**Vimal Gohil:** Thank you for the opportunity. Firstly, the question is related to the previous one. On the fixed price projects - I think that has been one of the big levers for your margins: you have got better realizations there. Over a period of time, we have seen the fixed price projects increase in terms of the mix - could you just give us some sense based on your assessment of your deal pipeline as to how sustainable are these fixed-price projects mix going forward? That is question number one.

The second one is: How do we see this impact of your OTT apps; they are seeing some sort of a slowdown, and we have seen the recent results of Netflix - they had a severe impact of losing subscribers. So how should we read the impact on that? Lastly, if you could just highlight: you have seen a bit of hiring slowdown - in Q2, we saw 705 people getting employed, we have seen half of that in this particular quarter versus what we have observed generally is that the industry is sitting at lifetime-high hiring, so how should we read that data point?

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- Gaurav Bajaj:** Let me take the first one; I think your first question was on the sustainability of the fixed price projects. I think for the last few years, you can see that we have been operating in a range of 50:50 plus-minus, and I feel that in the next one or two years, that ratio and proportion are not going to change much. It could move 2%, 3% here or there, but it is going to be in this range.
- Nitin Pai:** This is Nitin here. Let me take that. The second question was about OTT and the OTT slowdown. I think what you see from Netflix is really the intensity of competition in the market and not so much a turning away or a slowdown in demand for OTT, so I think there is a fundamental difference there. One is whether there is an overall decrease in demand for OTT itself. The second is whether the increased competition is taking away customer wallets and customer money away from Netflix. I think it is really the latter, so to that extent, more power to us, because we are all for more competition since that powers more deals for us and powers what we are in business for.
- Manoj Raghavan:** No, absolutely; as Nitin said, I do not think there is a slowdown in the OTT market. I am not sure where you read it. If you are again making that assumption from the Netflix news, then I think that is a wrong assumption. Regarding the hiring slowdown in Q4, our freshers typically come in during Q2 and Q3, and that is why you will see slightly higher numbers of freshers we have added in Q2 and Q3. So it is nothing to do with slowing down and so on. We continue to add people; I think over the last three quarters, we have added upwards of 1000 hires each quarter, so I think we are pretty good there.
- Vimal Gohil:** Fresher addition for 2023, is it quantifiable? How many freshers are you expected to add?
- Manoj Raghavan:** We are expecting to add between 2500 to 3000 freshers.
- Vimal Gohil:** In 2022, how much is it?
- Manoj Raghavan:** We have added about 1100 or so.
- Vimal Gohil:** 1100, and that is going to go up to 2500 to 3000?
- Manoj Raghavan:** Yes.
- Vimal Gohil:** Great. Okay, thank you so much—all the very best.

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**Moderator:** Thank you. The next question is from the line of Ankur Jain from Research India Private Limited. Please go ahead.

**Ankur Jain:** Thanks for taking my question. I have a couple of questions. My first question was with respect to our recently launched platform - TEngage. I just wanted to understand what kind of response we have got; did we have any major deals on this? My second question is about the Renesas and Tata Elxsi EV Innovation Center we have established; what potential benefits do we see from this partnership?

**Nitin Pai:** TEngage, as you note, we actually did a global launch for it just towards the end of March, so we are really just about three weeks, four weeks into the time from where we first launched it and announced it to the world. Having said that, we have had a brilliant response in the US because we were very clear that our first target market should be the US; our first deal should result from there, and I think we are already having multiple customer conversations along with enormous interest in what the platform represents and the direction that we are taking in terms of leading with patient experience.

Typically, most of the platforms that have been developed are more to serve the operational needs of hospitals. Here, we are taking a different view that it comes from an experience perspective rather than an operational perspective. So that is a quick view on TEngage. I think we just have to wait because we also know that platform deals always take time. One is to establish interest; the second is to actually get people to adopt because this is a major decision for them; it is not just a one-time consumption. So we expect that it will take some time, but I think there are good times ahead.

On the NEVIC, which is Next Generation EV Innovation Center, I think it is really about the fundamental point that the world is divided into two parts: traditional OEMs who know how to build vehicles but are now trying to make the electric and build in digital layers on top - in terms of connectivity, IoT, data management and so on, and we have the other world which is digital to start with, and they are now trying to build vehicles, and these are really the kind of companies that you see in the world. So our job is to act as a bridge in between because what we are bringing together with Renesas is really the point that both parties, whether you are born digital or you are born traditional, fundamentally have a gap when it comes to electronics and software, first of all. That is also the moot point for what makes up for electric powertrain and electric vehicles and what differentiates them.



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Our job is to make that journey faster and easier for both sides. Then for the traditional OEMs, we have other offerings, including Tether, which is a connected vehicle platform, and so on, which we believe will be an added value offering on top. So to that extent, it is a core offering of electronics and software that is needed to accelerate electric powertrain development and the layer of software that comes above, which powers the digital part for customers who need that.

We are really targeting India to start with, India and APAC, and then we want to grow global because we are very sharp in our focus. Our general EV capabilities apply to everybody, but they are predominantly passenger cars, so what we are doing now is we are targeting the two-wheeler, three-wheeler light vehicle segments, and for those markets, we believe they are far more sensitive to cost and time pressures and that is where readymade offerings help. They are not going to go down a path of full development.

- Ankur Jain:** Just to add, are we planning to launch our operating system for the automotive division?
- Nitin Pai:** No.
- Ankur Jain:** Okay, thank you so much.
- Moderator:** Thank you. The next question is from the line of Karan Uppal from Phillip Capital. Please go ahead.
- Karan Uppal:** Thanks for the opportunity. Just two questions from my side: one on the onsite-offshore effort mix, you spoke about 10 to 90, so is it a historical low for you? What is the normal onsite-offshore effort mix, and do you expect this to reverse in FY2023, which could be a margin headwind? The second question is on the transport vertical. It would be very helpful if you could give some color in terms of the demand in the sub-verticals of transport - ADAS, EV, and connected vehicles, how are we seeing the demand, and whether it is possible to quantify the contribution of these three sub-verticals?
- Manoj Raghavan:** I think it has been 10:90 for a couple of quarters at least, or in and around this. Pre-COVID, I think it was more like 30:70 or something around that. I do not think it will go back to those levels; it could settle somewhere in between. For now, I think we are okay with this number. As long as our customers do not insist on everybody coming onsite, our delivery processes are structured very well in such a way that we can deliver offshore remotely. I

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think we would want to leverage that so that we can deliver both cost benefits to our customers as well as retain the sort of margins that we have at this point in time.

Regarding the transportation business that you asked about, if you had noticed over the last three quarters, the transportation business has been accelerating. It has been really leading the growth for Tata Elxsi. So this Q4 also, I think transportation showed a smart growth led by multi-year deals, large deals on the EV side, ADAS, and connected infotainment side. So, we definitely are seeing good traction in all the three areas for automotive, so for once, I think it is a good position to be in. I will not be able to share the breakup or details because we do not share those details. But having said that, the fact that we have been growing aggressively over the last three quarters would give you a good idea of how our automotive business is performing.

**Karan Uppal:** Thanks a lot, and the last question is on the conflict in Europe. Any impact on your business, specifically from the auto OEMs and Tier-1 side?

**Manoj Raghavan:** We do not see any effect of that. We do not have any customers or any development centers in that geography, in that part of the world. Most of our customers are in the Western Europe region, so we have not seen any slowdown or any effect of this on any of our projects so far.

**Karan Uppal:** Sure, Sir. Thanks a lot, and all the best for FY2023.

**Moderator:** Thank you. The next question is from the line of Naveen Bothra, an Individual investor. Please go ahead.

**Naveen Bothra:** Congratulations on the excellent set of numbers. You have partly answered my question regarding the hiring outlook; if you can guide us about the net hiring targets for this year in view of the accelerated fresher hiring - you told us about 2,500 to 3,000, in view of the high attrition rate of 20% and high demand outlook, how do you see the net hiring outlook for the current year? Given that we added around 27% of our employees in the last concluded financial year, could you enlighten us on the net hiring target for this year?

**Manoj Raghavan:** We do not have net hiring targets, and we cannot work like that because it is such a dynamic world that we are in. We only have gross hiring targets, and of course, every quarter, we need to really see how we can control attrition and so on. The numbers that I talked to you about are all gross numbers, and if you look at it the last year, we added

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upwards of 2000 people net. So if you ask me a number, I would say net hiring will be somewhere between 3000 to 3500, but we have not really planned it in that way.

**Naveen Bothra:** In this financial year, we added around 27% - you said 2014 net employees- and our revenue has gone up by 35%, so some currency impact is also there.

**Manoj Raghavan:** Currency impact is there, utilization is also there, then, of course, a lot of fixed price project impact is there, and there is, of course, IPs and platforms and all of that, so all of that put together.

**Naveen Bothra:** So this trend, you see continuing for this financial year as well? Because we are signing many multi-year deals now, would you have some outlook on this one?

**Manoj Raghavan:** Yes, definitely, I think we do. Compared to the last financial year, we are starting with a much healthier order book this financial year.

**Naveen Bothra:** The last question is whether the number one customer is from the automotive or from the media side. If you can broad base our database, this year we have seen that sometimes the number one customer is from the media vertical, sometimes from automotive. In the postal ballot, related party transaction limits were increased for JLR, and this year too, it has been increased by 50% for JLR's related party transactions. So, if you can provide us with more granular data about this, is it from the automotive side or the media side?

**Manoj Raghavan:** I am not sure why you are so bothered about that. If you look at our competition, nobody discloses this; they only talk about the top five or top ten. We have been kind enough to tell you top one, top-five, and so on.

**Naveen Bothra:** Okay, thank you very much. Thank you, congratulations again.

**Moderator:** Thank you. The next question is from the line of Priya Rohira from Emkay Global. Please go ahead.

**Priya Rohira:** Thank you for giving me an opportunity to ask a question. My first question relates to the observations that you are entering the year with a very strong deal pipeline and maybe the highest ever customer additions. Could you give some qualitative or quantitative color on the customers which have been added, and maybe if you can quantify the deal pipeline, that gives much higher confidence as reflected in your voice as well?

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Usually, we do not give the quantitative details about the deal pipeline and so on, but having said that, I think in each of the quarters, we have been talking about a number of additions of new customers, whether it is in the automotive area, the OEM customers, as well as supplier companies. Some of the leading automotive companies, both OEMs as well as suppliers, are our customers right now, and a few of them have been added in the last financial year with a multi-year multi-million-dollar sort of deal pipeline.

I think if you look at the automotive industry with OEMs, including new age OEMs as well as the suppliers, we won some very good deals in the last financial year. That has actually helped accelerate the automotive growth over the last three quarters, which we have seen.

On the media and communications again, we continue to talk about the new deals we have been winning. Last quarter we talked about the operator customer we won in the Middle East. So the good part about the media and communication businesses: traditionally, we have been focused on the US as well as Europe, but in this last financial year, we have expanded geographically. Also, we now have customers in Latin America; we have customers in the Middle East and Africa.

Of course, we have a lot of customers in India as well, so from that point of view, definitely from a media and communication perspective, we have shown steady revenue growth, and that has come with new customer additions in all these new geographies. At the same time, we have also been able to win platform deals and our intellectual properties and products, so that is also another key area for us where we are investing in.

On the medical side, again, in each quarter, we have talked about the large deals that we have won, and as compared to the previous financial year, we have grown close to about 66% to 67%, which would indicate the sort of growth that we have seen in that particular business. So, I would say overall; as compared to the previous financial years, we have had good deal wins, we have opened up new geographies, we have larger multi-year deals that give us the confidence that the deal pipeline in the order book is pretty strong as we get into this new financial year.

**Priya Rohira:**

Sure, that is helpful. Just as a follow-up of that question, is it possible to give some directional color on whether the transportation - and mainly automotive - and, maybe in media and communications also, between the traditional guys and the next-gen born digital guys: say like an OTT player or say a 5G implementation; some sort of mix between

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the two? Because that clearly indicates, in terms of the growth pipeline, there are more chances of next-gen becoming a higher share in our revenue composition. I am sure you are tracking this internally, but just maybe a more qualitative color over the past one year on how this has shaped up?

**Nitin Pai:**

I think we look at it more from portfolio duration because when you think about this, there are pluses and minuses for each part. The traditional players are pivoting and transforming, so to that extent; you are running along with their speed of transformation.

With the new age, you know that there are a whole set of things where they do not bring their capabilities; they have the ability to craft larger deals, but they bring with themselves enormous risks. So, we have also seen enough of the new age OEMs go belly up with no funding or money left and either get sold for a song or just stop midway. This is true both in the media and communication space, where you have as many new OTT players who are cropping up and then dying or running out of money as much as it is the traditional players who are now moving to a direct-to-consumer model, whether it is like Disney or Discovery or anybody else going digital directly.

I think for us, it is a very careful portfolio management problem, and what also matters to us is the brands that we are going to be working with. So, on the one hand, there is excitement for the new age because a lot of the lessons and capabilities are built with them, but it is also a matter of risk. So that is all that I will tell you, but I think the heartening thing for us is you can take any sector that we work in, and you can take the top 10 leaders in that, and you can be sure that we work with half of them at least.

**Priya Rohira:**

Sure, this is pretty helpful and more of a data-keeping question; you mentioned the addition of 2500 to 3000 freshers. The total additions could be in the region of 3000 to 3500, basically?

**Nitin Pai:**

That is correct; that is the range we are indicating.

**Priya Rohira:**

Sure, this is very helpful. Thank you, and I wish you all the best.

**Moderator:**

Thank you. The next question is from the line of Abhishek Bhandari from Nomura. Please go ahead.

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**Abhishek Bhandari:** Good afternoon, and congrats on very strong numbers. I had a couple of questions. The first is if you could give some sense on the mix of your business; broadly speaking, how much of your portfolio would be annuity, and how much would be the project-driven business for you? Second, we are now touching close to \$300 million-plus kind of annual revenue. Do you think the time has come now for you to start investing very aggressively in sales to accelerate the growth further from here because now we also have the benefit of probably one of the highest margins we have ever seen in our history? So maybe you could elaborate on these two, and if I have any more, I will come back. Thank you.

**Manoj Raghavan:** We have been investing aggressively in sales. Over the last four quarters, we have brought in a lot of good resources that can support us both in the US as well as Europe. We will continue to do and not just invest in sales resources alone but also invest in tools and training for them. We have planned something along those lines in Q1 and Q2 of this year, so definitely a lot of action on the sales front.

From an annuity versus fixed-price/project-based engagement, what I can tell you is that over the last couple of years, we have moved the needle strongly towards annuity businesses. I will not really give you a percentage of how much is annuity or how much is fixed price, but that is a journey that is taking place. I think the sort of consistency in revenue that you have seen quarter-on-quarter is large because of the movement from project-based engagements to annuity and long-term customer relationships. I think it is a positive trend that we are seeing, and we hope that it will continue.

**Abhishek Bhandari:** That is helpful, and one last follow-up. While I heard in the call that you do not quantify your pipeline, you only give qualitative color, and possibly the only indicator for us to gauge the growth could be your headcount addition; could you give us some other indicator that could give us some sense of where your business is growing, headcount addition is one, but do you think there is anything else that you report could you give us some indication there?

**Nitin Pai:** I cannot imagine what else we can give you, but the simplest one I would say is that if you look at what we have called a strategic direction, we talked of - in the long-term - our mix of industries going to 40:40:20 between automotive and media & communication and healthcare, and we have moved the needle, of course. We had gone from two-three years back when it was 5% in healthcare, about 50 plus in automotive, and the rest in media;

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now we are almost there: 15% in healthcare and about 42%, 43% each in the other two. If you look at it, the trajectory will continue on that path.

If you look at our strategic direction, so you take the bulk of the resources: hiring and distributing them back in a 40:40:20 plus ratio, you will actually get the direction of where we are looking at the staffing and where our numbers will come from. That is one way to look at it. The other way to look at it would be, of course, the fact that we are looking at a better balancing of our geo-mix. Now that has lesser bearing for us because we do not do too much onsite in any case. For us, everything is offshore, or a large part of it is offshore, so you do not have to worry about people addition or staffing overseas. That is a smaller problem for us, so I would say that is the largest guidance that we can provide.

**Moderator:** Thank you. Mr. Bhandari, may we request that you return to the question queue for follow-up questions. The next question is from the line of Madhu Babu from Canara HSBC. Please go ahead.

**Madhu Babu:** Just on the emerging verticals, we have been investing a bit on the rail transport and others on the transport side, so how is that diversification on the emerging verticals going on? Second, in terms of Ukraine impact, are there any boutique vendors in Ukraine, and is there any possible market share shift towards us there? Because on the digital engineering, there have been some large vendors like EPAM there, but on the embedded side, are there any players there, and is there potential for a market share shift? And finally, with the kind of strong valuation the stock is getting, could we use this as a tool to go for acquisitions? Thanks.

**Manoj Raghavan:** I think on the transportation business, we called out rail and off-road vehicles in adjacencies. I would honestly say it has been a little slow; maybe about 5% is what we have achieved, and our target is to achieve close to 20% over the next three years. So we do not have much to report in this quarter regarding adjacencies; it is hard work, it is business development, it is new sales addition, so all of those investments are happening as we speak, but I am confident that in a couple of quarters we should see some good traction there.

Regarding Ukraine, companies like EPAM and so on, yes, we are seeing a few inquiries coming our way where customers have outsourced to companies like EPAM. They are really looking to de-risk and see if they can move that work to companies like us in India.

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So, we see a trickle of such inquiries coming our way, we cannot claim a large set of inquiries, but definitely, there are a few inquiries.

Regarding M&A, yes, I think that is always there. Still, as I say, some other investors of ours tell us very clearly that we have been growing very aggressively, 30% plus growth organically. Hence, they told us there is no need to look at inorganic options, not to lose our way by doing inorganic, so that is the advice. So, we are definitely keeping that in mind, but at the same time, if there is a good company that is a strategic fit for us and it comes within our evaluation range, we will definitely go for it.

**Nitin Pai:**

Yes, so maybe I will just add to what Manoj said. On the adjacency side, while we did call out what is happening with us from the transportation part, do note that we have similar adjacencies of media and new media. In our LCV vertical, we have similar pharma and digital health and healthcare. So the ultimate goal, of course, is to converge to a 20% in each of these adjacencies as a mix of an overall vertical, and we are at different points of the journey. So, if you were in media and new media, we are far ahead of what our targets were for this point in time.

In the case of digital health, we are well on our way. In pharma, we are a little behind; in transportation, we are a little behind again, but for us, I think that is the way of business because you look at two parameters: revenue is one, marquee customer is another. So I think we are tracking well on the customer front.

**Madhu Babu:**

Okay, Sir, thanks.

**Moderator:**

Thank you. The next question is from the line of Debashish Mazumdar from B&K Securities. Please go ahead.

**Debashish Mazumdar:**

Congratulations to the management team, and thank you very much for taking my question. I have a question that is not linked to Q4; more linked to FY2023 and beyond. If I understand the ER&D business nature correctly, it is a long gestation, high-investment business at the initial stage, and once you reach an inflection point, the rewards are also equally very, very high. So from your delivery for the last two years, especially the last six quarters, it seems to me that we have reached that inflection point where the investment is behind us, and we are getting the fruits of that investment.



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I just wanted to get some sense of what stage we are with most of our clients, especially top 20 and top 50 clients; have we reached that stage where we are getting these fruits back, which is visible in our growth and margins? Second one: if I can get some sense of how the client mining activity is happening from your side, especially in the top 50 clients, are we getting some pricing power with them? What is the direction going forward?

**Manoj Raghavan:**

Definitely, when we look at the top customers, and when we look at the top list, there is a lot of client mining that is happening, and a lot of the growth that we have seen in the last few quarters has been growing our existing customers, growing our existing revenues, we look at our top five customers and see that the amount of mining that we have done to really grow the customer base. So we are winning market share from our competition, and in general, there are also a lot of new services that our customers want us to take up: digital engineering services and so on. So the market is also expanding, and we are also eating away market share from the competition. So it is a combination of both that is really helping us grow.

When we look at the lifecycle, where we are at this point in time, I would say there is no single answer there; it depends on each customer situation. Customers that we have been with for the last ten years or so, of course, we are deeply entrenched, and as the customers are looking at new areas, new digital opportunities, and so on, we get engaged, and we grow. In the case of customers that have been added recently, there is a lot of headroom left for us to really tap into.

As I said, we have been in the US and Europe for a number of years, so in some of the major verticals - media and communication and transportation - we have a pretty established relationship. Healthcare is a relatively new business, so the relationship is still new. So, there is again a lot of headroom for expansion and really seeing how we can grow.

Similarly, from a geography perspective, if you see the newer geographies, we are just understanding the markets. We believe there is a lot of headroom in each of those geographies as well. So, I think at this point, I do not think we need to be worried if we have reached a saturation point since there is huge potential available still to be exploited, and I think we are on the right track as far as those pursuits are concerned.

**Debashish Mazumdar:**

Excellent. One last question, if I may squeeze in. If you see our last four quarters' performance, there is no seasonality as such. There was consistent 6% to 7% growth

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sequentially in each and every quarter. So is it like our business is currently structured in a way that there will not be any seasonality going forward, at least in the near-term visibility that we have?

**Manoj Raghavan:** If you look at it, not just the last four quarters, but last seven quarters also we have been consistently growing, so I think that is again due to all the efforts that we are putting in. One is mining the accounts, and two is getting those new logos and getting those multi-year deals also. So what happens typically is every quarter when we win these deals, in that quarter, the revenue will not be significant; it may be a small revenue, but over the next two, three, or four quarters is when we really ramp up teams, we mine this account, and we keep growing. So as long as we continue to open new logos and get into these large multi-year deals and so on, I think the trajectory is good for us.

**Debashish Mazumdar:** Excellent. Thank you very much for answering the question.

**Moderator:** Thank you. The next question is from the line of Hiren Ved from Alchemy Capital. Please go ahead.

**Hiren Ved:** Hi, Manoj and Nitin, Congratulations for consistently delivering superb numbers. Actually, most of my questions are answered. Still, I guess one of the participants asked this question, and I would reframe it: given the kind of tightness that we are seeing in resource availability, are you, therefore, able to translate that into better pricing, especially in the transportation vertical?

**Manoj Raghavan:** Yes, so definitely, we have gone back to customers wherever possible, and we have benefited from a rate increase also from some of our customers, especially for whom we have been consistently delivering value. So we definitely benefited from that, but at the same time, the demand is so much that the challenge for us is to have those trained engineers available so that we can tap into that demand. So that is where we are putting our focus and attention, and I am sure for the next two quarters, that is where the attention will be.

**Hiren Ved:** Okay, great, and I agree with your strategy, and I would recommend that we do not make any hasty acquisitions because I think there is just enough to grow organically rather than being distracted by any inorganic opportunities unless, obviously, you guys find the right fit, but thanks again and keep doing the good work. Congratulations.

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**Moderator:** Thank you. The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

**Bharat Sheth:** Hi, Manoj and Nitin. Congratulations. But when we are evaluating inorganic options, which are the gaps that we find that can help us in accelerated growth again?

**Manoj Raghavan:** Sorry can you reframe the question we did not get it?

**Bharat Sheth:** When we are evaluating inorganic opportunities, which are the areas where you think acquiring can help us in growing at an accelerated pace. Second, in the new geography which you said, is that the Japanese market we are looking at? If not Japanese, could you give some color on that?

**Manoj Raghavan:** No, regarding the M&A, as we indicated, we are looking at a few adjacencies that we need or where we do not have capabilities or the right customer connections and so on. So that is clearly one area that we would focus on to see how we can build capabilities or if there is a marquee customer we want to access.

We have been trying to get into that customer, but for whatever reason, we have not been able to get into that, can an acquisition help. If there is an existing vendor that is already working with that customer, can we acquire that Company and, as a result of which, get access to those customers? Those are the things that we look at when we are doing an M&A.

From a geographical perspective, I talked about the Middle East, I talked about Latin America, so these are two new geographies that we have entered; when I say entered, we have customers and so on, and we are looking at whether we should have a permanent establishment there, whether we should open up offices and whether we should set up, those are some things that are under active consideration. Japan has always been there; we were one of the earliest companies to be in Japan. Since 1997 we have been in Japan, so Japan is not new geography. Of course, Japan has, of late, not been delivering; that is true for the entire Indian IT industry. Japan as a country has sort of fallen off, and it takes that much more effort to get the business from Japan, but we continue to have operations, and we continue to serve customers there.

**Bharat Sheth:** In the platform business that we have launched, are we looking at a SaaS model in some of the IPs that we have developed? What is our thought process on that?

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**Nitin Pai:** Yes, on products and platforms, we definitely have a view of leveraging cloud and SaaS, and if you look at TEngage, which is on our healthcare side, or if you look at TEplay, which is our OTT white-label platform, they are all fundamentally SaaS in the construct, and the business model is of course subscriber-based and linked to growth. So definitely, as far as products and platforms are concerned, we are definitely looking at promoting SaaS.

**Bharat Sheth:** Is it fair to say that if this product has been developed for a specific client, can it cannibalize our business in those clients if we offer it on a SaaS base to all the people?

**Nitin Pai:** No, so if you look at what we are developing, for example, OTT and so on, it is meant for those customers who do not have the technological muscle or the financial muscle or the engineering capability to run and manage by themselves, right. So there will always be in the world a set of customers who are saying, 'Look, regarding the platform, ultimately I am not going to license somebody else's, I will develop it in-house, but I do not have the capability or the capacity, and I need somebody to help me, and that is outsourcing.' And our customers are going to say, 'Look, I am not in the job of running technology. My job is content and brand and business,' and they will be the Tier-2s or regional players or customers who do not look at technology as a core who are going to say, 'I would rather the platform came in and did what I need to do.'

So we see the two segments as very distinct: the ones that we do services for, may or may not become platform customers at some point in time, but definitely, there is a clear segment which is only platform; potential customers who are not going to do the technology on their own. So it is only a question of whether we become only integrators, helping them integrate somebody else's platform, or we provide our own. In this case, we have decided we will give them our own.

**Moderator:** Thank you. Mr. Sheth, may we request that you return to the question queue for follow-up questions as there are several participants waiting for their turn. The next question is from the line of Sandeep Jain, an Individual investor. Please go ahead.

**Sandeep Jain:** I just had one question. First of all, congratulations to you and your team for consistently great results. I just wanted to know that you had laid out one five-year plan internally in 2019; if you can speak a little more on that? Three years have passed; how do you assess the achievement on a scale from 1 to 10? Can you throw some light on that?

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**Manoj Raghavan:** I am very happy to report that whatever we have planned from a strategy perspective, the three-year plans that we laid out, I think we are almost there. We have definitely set very aggressive goals for each one of us, and on a scale of 10, I would say whatever we had thought about at that point in time, we have achieved 9 out of 10.

I would like to thank the entire management team and, of course, the delivery organization and the sales organization. The entire team has worked very hard for us to reach where we are today, and for those of you who know how we used to perform three to four years earlier to now, you would see the marked difference in the way we approach the consistency of performance and so on. This is something that we laid out three years ago, and I am happy to say that whatever we had set out, we are almost there.

**Moderator:** Thank you, Mr. Jain. May we request that you return to the question queue for follow-up questions? The next question is from the line of Mahek Thaker, an Individual investor. Please go ahead. As there is no response from the current participant, we will move to the next question from the line of Praveen Kumar Gurram, a retail investor. Please go ahead.

**Praveen K Gurram:** Congratulations on a very good set of numbers. My question is in terms of employees. So this Financial Year 2022, you have started with 7300 employees, and you lost close to 23% of the employees. Was there any effect on the business due to losing 23% of the employees?

**Nitin Pai:** Praveen, I think you are reading it a little wrongly because that reflects the attrition numbers for the latest quarter and that it does not equal 23% of all the people added. Having said that, you have to remember any business lives with attrition; it is only a question of how much more or less it is. So, it is not that attrition was not there five years back, and suddenly it has come up, and now there is attrition. Attrition has been a reality for the last 30 years that we have been in existence. It has peaked at certain times, and it has dropped at certain times. So to that extent, I think it is only left to the capability of organizations to deal with attrition and how you manage the impact on customers, and I think we are doing an extraordinarily good job, considering the fact that we continue to grow, continue to delight customers and continue to improve.

**Moderator:** Thank you. Mr. Gurram, may we request that you return to the question queue for follow-up questions. The next question is from the line of Amit Thawani, an individual investor. Please go ahead.

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**Amit Thawani:** Hi! Nitin, Hi! Manoj, Hi! Gaurav, all my questions have been answered, and I just want to congratulate you guys on a fantastic quarter. Maybe I can just squeeze in one question. We are doing a lot of offshore development centers for auto ancillary companies. I was just wondering whether that means more longevity of the business. Does that mean longer contracts or not really?

**Manoj Raghavan:** Yes, offshore development center typically is a longer-term engagement; it is a commitment from the customer that they want to work with us for 'X' number of years and so on, so yes, longevity is implied in those contracts.

**Amit Thawani:** Thank you Manoj.

**Moderator:** Thank you. The next question is from the line of Mayur Mathani, an individual investor. Please go ahead.

**Mayur Mathani:** Congratulations on the stellar set of numbers. I had two questions: one is with regards to your interview in ET today morning. You are saying that demand is outpacing supply; do you see challenges in the supply? What is the management bandwidth, and what sort of growth can we handle in these times when the demand is far outpacing supply? What is our capability to cater to the clients, and how much growth can be handled over the next two to three years? Second, on your website, you mentioned the Edtech sector, so what are your plans in the Edtech sector?

**Manoj Raghavan:** As I said today morning in the interview on TV, as we sit today when I look at the deal pipeline, and we look at the sort of demand that is coming in and the sort of deals that we are winning, definitely we have never been in such a situation of abundance. Demand is not an issue. Our customers are entrusting more and more work to us. All this great recognition is happening in the western regions, US and Europe. Even with the geopolitical situation in Europe, essentially, they are looking at companies, say in India, who both have the capacity and ability to take up these projects, so due to all these reasons, we see a lot of demand coming into India at this point in time. Having said that, when I say supply, I am not talking of generic engineering capabilities or skills or general engineers.

For every project that we have, we need a senior-level project manager, subject matter expert, architect, and so on. Hence, people who will actually hold those projects and who will be able to deliver those projects, so the supply for those critical profiles is where there is a shortage. We are working overtime to see how we can bring that sort of talent into the

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organization. At the same time, there is also the existing talent pool which is at mid-level within our organization; we are really seeing how we can quickly upscale them so that they can play those roles. They can play the SME role or the architect role, and so on. So we do both; we really see how we can promote our internal talent, and at the same time, we also look at how we can hire these people externally, so it is a combination of these that we are doing in this tough market situation, but I am hopeful that in a quarter or two, we will be able to manage this mismatch of demand and supply and really catch up on the sort of opportunity that lay in front of us.

**Mayur Mathani:** Thank you. Mr. Mathani, may we request that you return to the question queue for follow-up questions. The next question is from the line of Anondo Das Gupta, an individual investor. Please go ahead.

**Anondo Das Gupta:** Good evening. First of all, congratulations on the brilliant results. Now my question is coming from the investor presentation that I was reading through. There it is mentioned that you have unveiled recently TEngage, which is a digital health platform, in the USA. Do you think it is going to be coming in the future in India also, and what is the scope of that in India? The second question was regarding the attrition rate: is it happening more from the junior level, middle level, or upper level, and how do you plan to counter it in the future?

**Manoj Raghavan:** Yes, so a lot of attrition is in the lower level. We have had a good track record of retaining our mid and senior-level people, and I think I mentioned earlier, during this COVID time, a lot of people have been working from home, and including the new hires that we have done, a lot of them have not visited our office at all. We have hired them virtually, and we have lost them virtually also, so team bonding has not worked out during the COVID time. So, we have had a lot of what we call infant mortality, which is people leaving us within six months of joining or twelve months of joining. So that is where we see attrition at this point in time; however, the senior people and the mid-level people, we have a good track record of retaining them.

**Moderator:** Thank you. Ladies and gentlemen, due to paucity of time, that was the last question. I would now like to hand the conference over to the management for closing comments.

**Nitin Pai:** Good afternoon, everybody, and thank you so much for joining us on this earnings call. We hope we have addressed all your questions, and we look forward to hosting you again next quarter. Until then, goodbye and stay safe.

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**Moderator:** Thank you. Ladies and gentlemen, on behalf of Tata Elxsi Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.

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[Audio recording of Q4 Earnings Conference Call](#)

**Note:** This transcript has been edited for readability and does not purport to be a verbatim record of the proceedings.